CHAPTER 2

Auxiliary/Funds 128 and 136

I. General Guidelines and Assumptions for Minor Fund 128/136 Operations

A. With implementation of the new Planning and Budgeting Cloud System (PBCS), we will no longer be providing Excel templates for collection of estimated actual and FY 20 budget data for fund 128 minor auxiliaries. Information regarding templates for entry of estimated actual data will be provided to divisions with minor auxiliaries. FY 20 budget data will be entered only to PBCS, with no separate reporting requirement. There are no additional requirements for most fund 136 operations at this time. Budgets for this fund will only need to be entered to PBCS.

For the last five years Accounting Services has developed fund 136 reports that provide a three-year trend of revenue and expenses similar to the financial information previously provided in the minor auxiliary budget system. This report will be sent to divisions in mid-to-late January. The PBCS team is looking at options for providing additional tools for use in developing fund 136 budgets.

Although there will not be a requirement to submit fund 136 budget data to Auxiliary Operations Analysis, we will continue to request additional information about finances, rates, and business processes outside of the annual budget process.

These budget instructions may be found on the Auxiliary Operations and Madison Budget Office web sites at: https://aoa.wisc.edu/ and http://www.mbo.wisc.edu.

B. The requirement to round all budgets to the nearest $100 has been eliminated.

C. Investment Revenue – Interest earnings are estimated at an average of 2.5% for FY19 and 3.0% for FY20. Interest earnings will accrue only to operations on Fund 128. Interest is not paid on Fund 136.

D. Elements for Price and Rate Increases for Budget and Forecast:

1. Unclassified, Classified and LTE Salaries and Wages Assume unclassified and University staff will receive estimated increases of 3% for FY20 and FY21. Refer to Chapter 3 of the budget instructions, which will be available on the Madison Budget Office web site.

   The City of Madison living wage will increase to $13.27 per hour as of January, 2019.

2. FTE planning should take place in the budget process. State Statute grants the Board of Regents and the Chancellor authority over the creation and deletion of non-GPR positions. We are required to report annually on program and segregated revenue funded positions created in the previous year with their funding source. That information is forwarded to UW System Administration, the Department of

Administration and the Legislature's Joint Finance Committee. As such, it remains in our best interest to manage this flexibility wisely. FTE planning should primarily take place in the budget process.

Units requiring modification to authorized FTE levels should request changes through the Budget Office. The detailed form used in prior years will no longer be required. Instead, complete the simplified online form located on the MBO (https://mbo.wisc.edu/position-control-reports/). You will need to provide a brief but descriptive narrative that provides an overview of the changes and how it will impact FTE levels. This request should go to Andrew Johnson. Divisions should only request additional FTE if the division as a whole will exceed its authority with **filled** positions. It is not necessary to request additional position authority if vacancy levels generally remain at a high enough level that authority is not exceeded. Operations that wish to budget additional FTE's in 2019-20 should request these positions no later than March 7, 2019.

3. Student Wages – Student wage increases should be budgeted in accordance with the policies and procedures produced by the Office of Human Resources (OHR).

4. Fringe Benefits – Operations that have reliable actual fringe benefit cost information from previous years should use a fringe benefit rate based on actual experience.

   Operations may use the fringe benefit rates provided by the Office of Research and Sponsored Programs in developing their budgets. Generally these rates are available in January for the following fiscal year and can be found under Rates at http://www.rsp.wisc.edu.

   The Wisconsin Department of Employee Trust Funds (ETF) projects no increase in health insurance premiums effective January, 2019. Assume an additional 5% increase in January, 2020, and 5% for years thereafter. University employees enrolled in State Group Health Insurance in 2018 may opt out of 2019 coverage and receive a $2,000 incentive. This will be paid monthly and will be charged to the source of funds for the related payroll. This should be a net savings to the employing department, which will no longer be charged for the employee's health insurance,

   The ETF Board decreased the required contribution rates for most employees in the Wisconsin Retirement System by .25% January, 2019. The current rate is 7.65%. There is also a surcharge that has been added to this rate since 2003-05 to cover unfunded liabilities. The rate is subject to change each biennium. Assume this will remain at 3.3%. This means the total retirement charge is 10.95%. Assume it will stay at this rate for the budget period.

5. Tuition Remissions Surcharge – Beginning January 1, 2007, a fixed surcharge of $4,000 per semester has been applied to all PA and RA positions on all funds except Fund 142. TA positions are exempt from the charge. This was increased to $5,000 per semester in FY 15-16 and was increased again to $6,000 per semester in fall, 2016. Assume it will remain the same in FY 19 and FY 20.

6. Workers Compensation – All salaries and wages, unclassified, classified, LTE and student, are subject to worker's compensation premiums. We have no information at this time about future premium increases. For planning purposes assume a 4% increase in FY 19 and 20.

7. Property and Liability Insurance –For planning purposes, assume 2% increases in FY 19 and 20.

8. Terminal Leave Assessment – The terminal leave assessment was created to fund a pool for lump sum terminal leave payouts. FY 19 rates are .15% of faculty/academic staff and .03% of university staff salaries. Assume the rates will remain the same in FY 20.

9. Supplies and Services – Units should use an estimated inflation rate of 2.5 percent for 2018-19 unless there is a more appropriate inflation factor for the mix of goods and services they purchase.

10. Capital – For equipment purchases, only those items that individually cost $5,000 or more AND have a useful life of two years or more should be budgeted as capital. The $5,000 minimum does not apply to equipment accessories which are attached to previously purchased capital items. For current guidelines on building maintenance and improvements, see Exhibit A of the Accounting Services Class/Account Code Manual which is available on the Accounting Services web page.

11. Centralized Services Assessment – A centralized services assessment methodology has been established based upon institutional support costs of many of the central campus units at UW-Madison. Assume the rate will remain at 5% of expenditures, net of sales credits, FY 19 and will increase to 7% in FY 20. Our current methodology is subject to review and there may be changes in FY20.

12. Information Technology Assessments – Costs related to software licenses, common systems, 21st Century and VOIP have been combined and will be assessed as a single charge. Each division will determine the allocation among funds and activities.

E. Management of Cash Balances/Reserves/Solvency Position --Program revenue reserve balances, including funds 128 and 136, have been subject to increased scrutiny by the Legislature, resulting in a new Regent policy for these balances. Under this policy the campus is required to provide justification for balances in excess of 12% of current year expenditures. **This policy applies to the campus as a whole, and not to individual divisions or accounts**. For this calculation, reserve is defined as cash balance minus advance deposits (deferred revenue).

For purposes of individual activities on fund 128 and 136 (other than major auxiliaries), clearing accounts and activities that primarily serve internal customers should have a target balance of zero dollars by the end of each fiscal year. Activities that primarily serve external customers should have a target cash balance of no more than 15% of current year expenditures in addition to revenue that is unearned.

II. **<u>GENERAL GUIDELINES AND ASSUMPTIONS FOR MAJOR AUXILIARIES</u>** – These apply to University Housing, Wisconsin Union, Transportation Services, Car Fleet, Recreational Sports, University Health Services, Intercollegiate Athletics, Division of Information Technology, Child Care Tuition Assistance Program, University of Wisconsin Press, Conference Centers & Mail Services and selected Division of Student Life operations.

A. The 2019-20 Annual Budget and 2021-25 Five-Year Forecast for major auxiliary enterprises must be submitted to the Office of Auxiliary Operations Analysis (Room 167 Bascom Hall) no later than **<u>Thursday, March 7, 2019</u>**. If submitted electronically, this should be in Excel format rather than PDF and sent to aoa@vc.wisc.edu. The UW-Press forecast will be three years.

B. The requirement that all dollar amounts be rounded to the nearest $100 has been eliminated.

C. The 2019-2020 total budget amounts entered in the cash flow schedules must agree with the amounts entered into PBCS. All non-salary amounts entered into PBCS must be the same as entered on Schedule A. Debt service should be entered on fund 123. Salary amounts are entered to the CAT tool. If there is staff turnover between the time the budget schedules are submitted to AOA and the budget entry cut-off in early April, provisions for salary savings or increases should be used to keep totals reconciled to the budget submission to AOA.

D. The 2018-2019 Estimated Actual amounts entered in the schedules should be based upon operating experience year to date through the time of budget submission, extrapolated through June 30, 2019. These amounts should be consistent with third quarter projections you submit through the quarterly forecast process. The Operating Contingency, as shown on the statement of financial position (Schedule B), should be based on estimated actual university staff and unclassified salaries and benefits. For the Division of Student Life and CCTAP, this appears on schedule A/B.2 and will be calculated by Auxiliary Operations Analysis.

E. A Director's Summary of each budget unit's 2019-20 budget proposal, including comments about major capital expenditures, solvency, operations, new or changed programs, and underlying assumptions, is to be submitted as part of the annual budget request. This will be the source for our narratives submitted to UW System explaining cost increases.

F. Financially-sound pro forma financial statements must be developed. If budgeted and forecast revenues are not sufficient to meet budgeted and forecast expenses associated with present program levels in terms of quality and/or quantity, reduction, modification, or elimination of programs must be implemented. Such conditions should be explained in the Director's Summary.

The primary purpose of the 2021-25 forecasts is to project future cash and revenue needs (including prices/rates) to support future operating expenses, capital expenditures and solvency requirements. Schedule B2 should reflect an attempt to match forecast financial resources and requirements.

G. Explicit assumptions regarding revenue, expense, cash flow, inventory levels, accounts receivable, etc. should be stated and appended as notes to the appropriate budget or forecast schedule.

H. The cash flow forecast (Schedule A), which is the basis for the official Regent-approved Red Book budget, must be reconcilable to the accrual income statement (Schedule C) and the statement of financial position (Schedule B). The cash balance on Schedule A must reconcile to cash on Schedule B. Net income on Schedule C must reconcile to Change in Equity on Schedule B. The cash flow FY 20 budget must reconcile to your PBCS budget submission and the ending cash balance should be consistent with your third quarter forecast provided to Accounting Services.

I. Each budget unit should submit a schedule, such as Schedule E3, "Capital Equipment/Building Expenditures Summary", listing planned capital expenses. The total cost of projects requiring approval of the State Building Commission (SBC) and/or the Division of State Facilities Development and Management (DFDM) should be listed in the schedule in the year the cash transfer is expected to be made to the Building Trust Fund.

As a result of a recent policy change at DFDM the full amount of the design fee must be sent to DFDM when a project is approved. The full amount of budgeted PR-cash must be sent at the point of Authority to Construct. Gift funds will be sent according to an agreed upon schedule over the course of construction. In the short run, this may require loans from campus balances. These loans should be reflected in the financial statements along with proposed repayment schedules.

Although PR-cash is sent in advance, DFDM allocates project costs proportionally to cash and bond budget lines throughout the constructions period. Therefore, forecasts for projects with a combination of cash and bonding should assume that bonds are requested in time to pay the bonding share over the course of construction.

J. <u>Committed Operations Equity</u> – The Statement of Financial Position (Schedule B) should include the following categories of committed operations equity projections:

1. <u>Equipment, Buildings, Land Improvements and Land</u> – Equipment, buildings, land improvements and land, net of accumulated depreciation, less related long-term debt and/or contributed equity.

2. <u>Debt Service Contingency</u> – Each major auxiliary should review debt service contingency levels with AOA during the budget process. Debt service contingencies will be set at a level equal to no more than one year of debt service payments, minus amounts included in short-term liabilities. For some units a 6 month or zero contingency may be indicated.

3. <u>Operating Contingency</u> – Each major auxiliary should review operating contingency levels with AOA during the budget process. In most cases a level equal to one month of permanent salaries, wages and fringe benefits will be permitted. (Do not include LTE or student wages.) For specific units a lower or higher level may be determined in consultation with AOA staff. UW System guidelines are in Appendix 3 of policy 314 (formerly F43) - Financial Management of Auxiliary Enterprises. The operating contingency is considered a part of the operating reserve and falls under the 5% minimum to 15% maximum of prior year revenue category.

4. <u>Equipment-Add/Replace, Buildings-Add/Replace and Land Improvements-Add/Replace</u> – The contingencies in the current year, budget year and all forecast years should be set at the amount of cash required for the following two years. Schedule E2 may be used but this is no longer required. These contingencies are subject to the limits in Attachment 3 of Policy 314 (formerly F-43).

5. Any other categories should be discussed with Donna Halleran.

K. Enrollment Projections for UW-Madison – Enrollment projections were sent to all segregated fee units in November as part of the Segregated Fee estimates. Freshman enrollment is expected to increase by 250 students per year until 2021, and then remain flat after that.

L. Segregated University Fees (SUF) – SUF projections were developed and sent to units receiving those fees along with templates and instructions for their use. This year we have included suggested rates for FY 20 based on preliminary information. If the rate proposal changes during the budget process, contact Auxiliary Operations Analysis for further instructions. We have also provided estimated fee collections for FY 19 and FY 20. In PBCS, there will be a requirement to separately enter budgeted fees for each semester and prior year. We have provided the detailed amounts by semester and these should match amounts entered to PBCS.

M. Investment Revenue – Interest earnings are estimated at an average of 2.5% for FY19 and 3.0% for FY 20. The estimated rate should be 3.5% for FY 21 and increase by .5% for each of the forecast years.

N. Elements for Price and Rate Increases for Budget and Forecast:

1. Unclassified, Classified and LTE Salaries and Wages – Assume Unclassified and University staff will receive estimated increases of 3% for FY20 and FY21 and another 2% annually after that. Refer to Chapter 3 of the budget instructions, which will be available on the Madison Budget Office web site.

   Further instructions for FY 20 are in Chapter Three of the budget instructions, which will be available on the Madison Budget Office web site.

   The living wage will be increased to $13.27 per hour as of January, 2019.

2. FTE planning State Statute grants the Board of Regents and the Chancellor authority over the creation and deletion of non-GPR positions. We are required to report annually on program and segregated revenue funded positions created in the previous year with their funding source. That information is forwarded to UW System Administration, the Department of Administration and the Legislature’s Joint Finance Committee. As such, it remains in our best interest to manage this flexibility wisely. FTE planning should primarily take place in the budget process.

   Units requiring modification to authorized FTE levels should request changes through the Budget Office. The detailed form used in prior years will no longer be required. Instead, complete the simplified online form located on the MBO (https://mbo.wisc.edu/position-control-reports/). You will need to provide a brief but descriptive narrative that provides an overview of the changes and how it will impact FTE levels. This request should go to Andrew Johnson. Divisions should only request additional FTE if the division as a whole will exceed its authority with filled positions. It is not necessary to request additional position authority if vacancy levels generally remain at a high enough level that authority is not exceeded. Operations that wish to budget additional FTE’s in 2019-20 should request these positions no later than March 7, 2019.

3. Student Wages – Student wage increases should be budgeted in accordance with the guidelines published by Office of Human Resources (OHR). Some of the auxiliaries have experienced difficulties in hiring student employees. These units should budget according to their individual market conditions. All should assume gradual increases over time.

4. Fringe Benefits – Fund 128 operations that have reliable actual fringe benefit cost information from previous years should use a fringe benefit rate based on actual experience.

   Fund 128 operations may use the fringe benefit rates provided by the Office of Research and Sponsored Programs in developing their budgets. Generally these rates are available in January for the following fiscal year and may be found under Rates at http://www.rsp.wisc.edu.

   The Wisconsin Department of Employee Trust Funds (ETF) projects no increase in health insurance premiums effective January, 2019. Assume an increase of 5% January, 2020 and in each year of the forecast. University employees enrolled in State Group Health Insurance in 2018 may opt out of 2019 coverage and receive a $2,000 incentive. This will be paid monthly and will be charged to the source of funds for the related payroll. This should be a net savings to the employing department, which will no longer be charged for the employee's health insurance,

   The ETF Board decreased the required contribution rates for most employees in the Wisconsin Retirement System by .25% January, 2019. The current rate is 7.65%. There is also a surcharge that has been added to this rate since 2003-05 to cover unfunded liabilities. The rate is subject to change each biennium. Assume this will remain at 3.3%. This means the total retirement charge is 10.95%. Assume it will stay at this rate for the budget period.

5. Tuition Remissions Surcharge – Since January 1, 2007, a fixed surcharge of $4,000 per semester has been applied to all PA and RA positions on all funds except Fund 142. TA positions are exempt from the charge. This was increased to $5,000 per semester in FY 15-16 and was increased again to $6,000 per semester in fall, 2016. Assume it will remain at $6,000 for the budget and forecast period.

6. Workers Compensation – All salaries and wages, unclassified, classified, LTE and student, are subject to worker's compensation premiums. Unit premiums will be affected by actual claims experience. We have no information about future premium increases. For planning purposes, assume a 4% increase each year.

7. Property and Liability Insurance – We have no information at this time about expected increases in property and liability insurance for the Madison campus in FY 19 or 20. New facilities will result in higher than average property premium increases for certain units. Actual claims experience for both property and liability will affect unit premiums. For planning purposes, assume a 2% increase each year as a base premium increase.

8. Terminal Leave Assessments – The terminal leave assessment was created to fund a pool for lump sum terminal leave payouts. FY 19 rates are .15% of faculty/academic staff and .03% of university staff salaries. Assume the rates will remain the same in FY 20.

9. Supplies and Services – Units should use an estimated inflation rate of 2.5 percent for FY 19 and FY 20 and 2.5 percent in the forecast years unless there is a more appropriate inflation factor for the mix of goods and services they purchase.

10. Municipal Services – Auxiliary units occupying program revenue space are required to pay for municipal services. Effective FY 18, a separate segregated fee was established for municipal services charges previously paid by Wisconsin Union, Recreational Sports, UHS and ASM. All units should assume a 4% annual increase over the FY 18 charge.

11. Utilities – All utilities-related expenses should be based on prior experience and Physical Plant estimates for the current and future years. Refer to the provisions of UW System Administration policy 318 (formerly G3), "The Charging of Utilities for Auxiliary Enterprises," in determining and documenting utility cost projections.

    Physical Plant estimates for electric, steam and chilled water rates will be provided in mid-January.

12. Centralized Services Assessment – A centralized services assessment methodology has been established based upon institutional support costs of many of the central campus units at UW-Madison. For FY 19 the centralized services charge will be 5% and is expected to increase to 7% in FY20. The campus is reviewing the methodology for calculating assessments along with the rate, so rates are subject to change and potential increase in FY 21 and beyond. For the purpose of building a forecast, assume the same methodology and 7% rate in the forecast years.

13. Utility Infrastructure Costs –Estimates for All-Agency, Co-Gen, Charter and major utility project assessments will be sent separately to all affected units.

    These costs should be budgeted as capital on separate line on Schedule A.

14. Routine Repairs and Maintenance – Routine R/M expenses for equipment, buildings, and land improvements should be based on prior experience in terms of maintaining operations on a day-to-day basis and include a 2% increase for price escalation.

15. Major Repairs and Maintenance –Calculation of the Major R/M contingency should be based on reasonable annual allocations as a function of projected capital expenditures during the 2020-2026 annual budget/forecast periods. The limits in UW System policy 314 (formerly F43) Attachment 3 apply to this category. The Divisions of Intercollegiate Athletics and Recreational Sports should assume no further GPR funding from the All-Agency and Small Projects programs except for projects that have already been approved with GPR funding.

16. Capital Equipment – For furniture and equipment purchases, include only items that individually cost $5,000 and more AND have a useful life of two years or more. The $5,000 minimum does not apply to equipment accessories that are attached to previously purchased capital items. Also, replacement parts or renovation which costs $5,000 or more AND which extend the useful life should also be included. See Exhibit A of the Accounting Services Class/Account Code Manual for current guidelines on remodeling and maintenance projects.

17. Depreciation Expense – Depreciation expense for equipment, buildings, and land improvements should be recognized in accordance with generally accepted accounting principles applied on a basis consistent with preceding accounting periods. To be consistent with UW System financial statements, buildings should be depreciated for a half year in the year placed in service. New buildings or major additions should be depreciated over 40 years. Renovation should be depreciated over 20 years.

18. Debt Service –Principal repayments and interest expense should be separately identified on schedule A. These will be entered on fund 123 in PBCS.

19. Wisconsin Department of Administration Assessments – This assessment has been replaced by/incorporated into the centralized services assessment discussed above.

20. Property Taxes – State law subjects tax exempt entities to the payment of property taxes on that portion of their facilities used to generate unrelated business income. The UW System became subject to the payment of this property tax with the start of the 1993 local fiscal year. To date, no property tax assessments or valuations have been received from any municipality.

21. Auxiliary Rate Threshold – This year all segregated fee and housing increases, regardless of amount, will require more detailed reporting. The 3% reporting threshold has been eliminated. In prior years, only the most popular room rates were reported for residence halls. This year prior and current rates will need to be reported for every room. The 2019-20 annual budget proposals will be considered at the July 2019 Board of Regents meeting.

22. Information Technology Assessments – Costs related to software licenses, common systems, 21st Century and VOIP have been combined and will be assessed as a single charge. Each division will determine the allocation among funds and activities. The amount of the assessment for each auxiliary was provided at the November auxiliary budget meeting.

23. Interest Rates for Capital Projects Planning – The Capital Finance Office in the State Department of Administration suggests using a rate of 5% for planning purposes. Notes payable and commercial paper have variable interest rates and amortization schedules developed by Capital Finance assumed a rate of 5%, with quarterly payments. The actual interest rates are less than 5%, but are expected to increase with semi-annual payments. For FY 19 and FY 20, it is reasonable to assume an interest rate of 5%, with continued annual payments. For FY 21 and beyond, use the amounts in the amortization schedules for existing debt and 5% for new debt.

    The Capital Finance Office was able to take advantage of a federal program, Build America Bonds, which was part of the 2009 stimulus package. The federal government will pay 35% of all future interest costs on bonds issued under this program. This applies to the 2009D and 2010B sales. The program expired at the end of 2010.

    Auxiliaries with 2009D or 2010B bonds that will receive future credits should handle the federal contribution as a reduction in interest expense. This should be reported separately to aid in the debt service reconciliation process.

Sequestration has reduced the federal subsidy to 33%. Beginning with the spring of 2018 credit, the 33% subsidy will be reduced by an additional 6.9%, for a net credit of 30.8%. Sequestration will continue to trigger reductions through 2025. There is a possibility this interest credit would be reduced further depending on the outcome of proposed tax reform legislation and the potential for further triggering of sequestration cuts. Interest credits for fall, 2017 were received in October and were at 33%. Assume spring, 2018 and fall, 2019 will be at a rate of 30.8%. Assume further reductions of 1% in spring, 2019 and each year of the forecast.

24. UW System Fund 128 Assessment - UW System had been funding costs for purchasing and capital projects as a charge against fund 128 interest incomes. In FY 12 they changed their procedure to bill campuses for this cost. This was assessed directly to University Housing, Transportation Services, Recreational Sports and Wisconsin Union. We are assuming no increase in the budget and forecast years.

O. Management of Cash Balances/Reserves/Solvency Position – UW System Policy 314 (formerly F43), provides guidelines for reserve balances. This may be found at https://www.wisconsin.edu/uw-policies/uw-system-administrative-policies/financial-management-of-auxiliary-operations/. Attachment 3 provides reserve maximum and minimum guidelines for the UW System.

Regent Policy 21-6 was approved by the Board of Regents in June, 2014. This policy establishes a reserve target of 10% of current fiscal year expenditures**. This policy applies to UW-Madison as a whole, and not to individual auxiliaries**. Major auxiliaries should continue to follow the requirements in Policy 314, Attachment 3 unless instructed otherwise.

The new Regent policy also requires an annual report categorizing program revenue balances as obligated, planned, designated or undocumented. Institutions with balances in excess of 12% of expenditures are required to submit detailed spending plans. The supporting documentation of these plans is subject to audit by the Legislative Audit Bureau. Fund 128 will generally meet this threshold, so it is particularly important that auxiliaries maintain supporting documentation for spending plans. Divisions will continue to be required to submit quarterly forecasts for cash balances and expenditures as well as categorized balances at year end.